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CITY OF RANCHO PALOS VERDES, CALIFORNIA

**SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS**

JUNE 30, 2008

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3/19/09

CITY OF RANCHO PALOS VERDES

TABLE OF CONTENTS

June 30, 2008

Page
Number

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	1 - 2
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with <u>OMB Circular A-133</u> and on Schedule of Expenditures of Federal Awards	3 - 4
<u>Schedule of Expenditures of Federal Awards and</u> <u>Schedule of Findings and Questioned Costs</u>	
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7 - 8
Summary Schedule of Prior Audit Findings	9



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December 22, 2008

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of City Council
City of Rancho Palos Verdes
Rancho Palos Verdes, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rancho Palos Verdes, California (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

- 1 -

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Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we have reported to the City Council and management of the City of Rancho Palos Verdes in a separate letter dated December 22, 2008.

This report is intended solely for the information and use of the City Council, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and
Members of City Council
City of Rancho Palos Verdes
Rancho Palos Verdes, California

Compliance

We have audited the compliance of the City of Rancho Palos Verdes, California (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated December 22, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Diehl, Evans and Company, LLP

February 19, 2009, except to the date for the Schedule of Expenditures of Federal Awards, to which the date is December 22, 2008.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF RANCHO PALOS VERDES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2008

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Grant/Program Identification Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the County of Los Angeles Community Development Commission:			
Community Development Block Grant	14.218	D96691-07	
	14.218	D98694-07	
	14.218	600948-07	
	14.218	D96693-07	\$ 244,904
<u>U.S. Department of Transportation</u>			
Passed through the California Department of Transportation:			
Highway Planning and Construction	20.205	STPL-5413 (007)	673,000
<u>U.S. Department of the Interior</u>			
Direct Assistance:			
Multistate Conservation Grant Program	15.628	95-2867872	1,074
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 918,978

See Accompanying Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A - 133 and on Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (page 6).

CITY OF RANCHO PALOS VERDES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2008

1. REPORTING ENTITY:

The City of Rancho Palos Verdes, California (the City), for purposes of the Schedule of Expenditures of Federal Awards, includes all funds of the primary government and its blended component units as defined by GASB Statement No. 14 "The Financial Reporting Entity".

2. BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

3. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

See Accompanying Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (page 5).

CITY OF RANCHO PALOS VERDES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2008

SUMMARY OF AUDITORS' RESULTS:

- a. The auditors' report expresses an unqualified opinion on the financial statements of the City of Rancho Palos Verdes.
- b. No instances of significant deficiencies were disclosed during the audit of the financial statements.
- c. No instances of noncompliance material to financial statements of the City of Rancho Palos Verdes, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
- d. No instances of significant deficiencies in internal control over major federal award programs were disclosed during the audit.
- e. The auditors' report on compliance for the major federal award programs for the City of Rancho Palos Verdes expresses an unqualified opinion on all major federal programs.
- f. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
- g. The threshold used to distinguish between type A and type B programs was \$300,000.
- h. The program tested as a major program was:

Highway Planning and Construction - CFDA No. 20.205
- i. The City of Rancho Palos Verdes did not qualify as a low-risk auditee.

See Accompanying Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF RANCHO PALOS VERDES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2008

SUMMARY OF AUDITORS' RESULTS (CONTINUED):

FINANCIAL STATEMENT FINDINGS:

There were no significant deficiencies or noncompliance material to the financial statements which were disclosed by the audit of the financial statements of the City of Rancho Palos Verdes for the year ended June 30, 2008.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

None noted.

See Accompanying Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF RANCHO PALOS VERDES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2008

There were no findings or questioned costs for the year ended June 30, 2007.

See Accompanying Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards (pages 1 through 4).